



Postmaster General Tells Senate: Postal Service in Midst of Financial Disaster, Liquidity Remains Dangerously Low

Donahoe Presses for Legal Framework to Act With Speed and Flexibility

WASHINGTON — Postmaster General Patrick R. Donahoe told a U.S. Senate committee today that the U.S. Postal Service is in the midst of a financial disaster and that its cash liquidity remains dangerously low.

Donahoe is seeking legislation that will enable the Postal Service to act with speed and flexibility in the mailing and shipping marketplace and help it close a \$20 billion budget gap by 2017.

"The Postal Service plays an incredibly important role in the American economy and in America's communities," said Donahoe. "And yet, it is in the midst of a financial disaster."

Over the past two years, the Postal Service recorded roughly \$20 billion in net losses and defaulted on \$11.1 billion in retiree health benefits payments to the United States Treasury. Donahoe told the Senate Committee on Homeland Security and Governmental Affairs that the Postal Service will default on another \$5.6 billion retiree health benefits payment that is due Sept. 30th.

"Our cash liquidity remains dangerously low," said Donahoe. "The Postal Service, as it exists today, is financially unsustainable....[and] burdened by an outdated and inflexible business model."

Donahoe added that mail needs to be kept affordable so that it remains competitive and continues to deliver value for America's businesses.

"Unfortunately, because our financial condition is so precarious, and the legislative process is so uncertain, we've reached the point that we have to consider price increases above the rate of inflation," said Donahoe. "I believe it is important that we discuss this issue today, because the prospects for legislation have a direct bearing on pricing decisions that may impact the health of our business customers."

Donahoe said that in 2006, Congress gave the Postal Service the flexibility to better compete in the package delivery business. "We made the most of that flexibility. We created effective products and marketing campaigns. And now our package business is growing rapidly. But we need this kind of flexibility across all of our businesses."

Earlier this year, the Postal Service published a [Five-Year Business Plan](#) designed to restructure the organization and return it to profitability. If fully implemented, the plan will generate \$20 billion of savings by 2017, including the repayment of our debt.

Donahoe said that the Postal Service is pursuing elements of the plan "very aggressively" and is "achieving some great results," especially in consolidation of mail processing facilities, elimination of delivery routes, optimization of the retail network, and generation of new revenue in the package business.

"We agree with the overall approach taken in Senate bill 1486," said Donahoe. "It provides important pricing and product flexibility, and a strong framework for restructuring the Postal Service. However, to meet the goal of generating savings of \$20 billion by 2017, the legislation

must resolve our long-term health care costs.”

These legislative requirements are fully explained in the written testimony, available at:
<http://about.usps.com/news/testimony-speeches/welcome.htm>

Below is the Postmaster General’s oral testimony before the committee. Please note that the delivered remarks may vary from the prepared text.

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Good morning Mr. Chairman Carper, Dr. Coburn, and members of the Committee. Thank you, Mr. Chairman, for calling this hearing.

The Postal Service is a tremendous organization. It has a proud, dedicated workforce that delivers mail and packages to every business and residence in America. It does so affordably, securely, and reliably. The Postal Service plays an incredibly important role in the American economy and in America’s communities. And yet.... it is in the midst of a financial disaster.

Over the past two years, the Postal Service recorded roughly \$20 billion dollars in net losses, and defaulted on \$11.1 billion dollars in retiree health benefits payments to the United States Treasury. We will default on another \$5.6 billion payment due September 30th, and our cash liquidity remains dangerously low.

The Postal Service as it exists today is financially unsustainable. It is burdened by an outdated and inflexible business model. Without significant structural changes, it will continue to record large financial losses. We must get on the path to financial stability quickly, and we need your help to do so.

Earlier this year, the Postal Service published a comprehensive business plan designed to restructure the organization and return it to profitability. If fully implemented, our plan will generate \$20 billion of savings by 2017, including the repayment of our debt.

The Postal Service is pursuing elements of this plan very aggressively and we are achieving some great results – especially in areas relating to the consolidation of mail processing facilities, elimination of delivery routes, optimizing our retail network and generating new revenue in our package business.

Unfortunately, the strategies we are allowed to pursue cannot get us to the \$20 billion dollar mark by 2017. To fully implement our plan, we require the enactment of legislation that reforms our business model.

I want to make the point that the legislation we are seeking is not merely about closing a very large budget gap. We want to be an organization that can readily adapt to the changing demands of our

customers. The marketplace for mailing and shipping services is changing and the Postal Service requires a legal framework that enables it to act with speed and flexibility.

Will we always meet our universal service obligations – and – meet the basic product and service expectations of the American public? This legislation could determine whether we can continue to do so in the future.

Can we be much more nimble and efficient and continue to invest in the future of the mailing industry? Yes.... but we need the flexibility under the law to do so.

In 2006, the Congress gave the Postal Service some flexibility to better compete in the package delivery business. We made the most of that flexibility. We created effective products and marketing campaigns, and now our package business is growing rapidly. We need this kind of flexibility across all of our businesses.

We believe there are tremendous opportunities to leverage data and technology to make mail a more compelling investment for America's businesses. We also believe there are great opportunities for the Postal Service to provide digital offerings in the future.

If we are able to operate with greater product and pricing flexibility under the law, and if we can do so from a strong financial position, I am confident that we can develop and market products and services that drive growth in the American economy – and – benefit America's mailing industry.

Mr. Chairman, we are highly focused on the health of America's mailing industry. Mail is a communications channel that competes against digital, print, broadcast and other media channels. Industry-wide innovation is very important, and the Postal Service should have the flexibility to support and speed that innovation.

We also need to keep mail affordable so that mail remains competitive and continues to deliver value for America's businesses.

Unfortunately, because our financial condition is so precarious, and the legislative process is so uncertain, we've reached the point that we have to consider price increases above the rate of inflation. I believe it is important that we discuss this issue today, because the prospects for legislation have a direct bearing on pricing decisions that may impact the health of our business customers.

Let me conclude with the following thought:

The Postal Service is quickly moving down a path that leads to becoming a massive, long-term burden to the American taxpayer. The legislation you are considering is a great starting point to get us off the path to disaster and onto the path toward financial stability.

We agree with the overall approach taken in Senate bill 1486. It provides important pricing and product flexibility, and a strong framework for restructuring the Postal Service. However, to meet the goal of generating savings of \$20 billion by 2017, the legislation must resolve our long-term healthcare costs. I believe this is achievable, and I'm greatly encouraged by the recent discussions on this topic – which I know we will be discussing further next week.

I would like to thank the committee for taking up postal reform legislation this year. I look forward to supporting your work and hope to help in any way I can. This concludes my remarks.